

Message Text

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PAGE 01 OTTAWA 02200 272353Z
ACTION EUR-12

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C O N F I D E N T I A L OTTAWA 02200

E.O. 11651: GDS
TAGS: NATO MPOL, CA
SUBJECT: PROJECTIONS OF CANADIAN DEFENSE SPENDING

REF: A. USDAO OTTAWA 181918Z APR 78 (NOTAL);
B. USNATO 4139 (NOTAL)

1. IN FURTHER EFFORT TO DETERMINE ACTUAL GOC INTENTIONS
WITH RESPECT TO DEFENSE BUDGET OVER NEXT FIVE YEARS, DCM
RAISED SUBJECT WITH VICE CHIEF OF DEFENSE STAFF LT. GEN.
RAMSAY WITHERS. DCM NOTED SOME INDICATIONS THAT EXPENDI-
TURES THIS FISCAL YEAR MIGHT TALL SHORT OF BOTH NATO THREE
PERCENT GROWTH TARGET AND GOC POLICY OF BRINGING ANNUAL
CAPITAL EXPENDITURES TO TWENTY PERCENT OF TOTAL DEFENSE
BUDGET.

2. WITHERS ASSERTED THAT THERE HAS BEEN NO CHANGE IN
POLICY, AND THAT GOC PLANS TO MEET TARGETS TO WHICH IT IS
COMMITTED. HOWEVER, HE EXPLAINED THAT DND DECIDED SEVERAL
MONTHS AGO THAT IT DID NOT HAVE SUFFICIENT PLANNING STAFF
AT THE PRESENT TIME TO COMPLETE NECESSARY PROGRAMMING AND
CONTRACTING TO UTILIZE FULL AMOUNT OF FUNDS WHICH TARGETS
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PAGE 02 OTTAWA 02200 272353Z

FOR THIS FISCAL YEAR WOULD IMPLY. THEREFORE, DND TALKED
QUIETLY WITH TREASURY BOARD AT STAFF LEVEL AND ARRANGED
CANADIAN DOLS 60 MILLION "DEDUCTION" FROM FY 78-79 BUDGET,
ON CLEAR UNDERSTANDING THAT THIS AMOUNT WOULD BE RESTORED,
DULY INFLATED, IN FY 80-81 BUDGET (AT WHICH TIME IT WILL
BE WORTH CANADIAN DOLS 100 MILLION).

3. BOTH DND AND TREASURY BOARD WERE HAPPY WITH THIS ARRANGEMENT: LATTER BECAUSE IT CONSTITUTES "SAVING" IN CURRENT BUDGET; AND FORMER BECAUSE IT WILL HAVE NECESSARY STAFF TO PROGRAM THESE EXPENDITURES IN THE LATER TIME FRAME, AND BECAUSE ADDITIONAL FUNDS WILL NOW BECOME AVAILABLE JUST AT TIME THEY WILL BE NEEDED TO START UP NEW FIGHTER AIRCRAFT. WITHERS COMMENTED PARENTHETICALLY THAT NFA TEAM HAS ALREADY CONCLUDED THAT, WHICHEVER CANDIDATE WINS OUT, THESE ADDITIONAL FUNDS WILL BE REQUIRED FOR THAT PROGRAM.

4. WITHERS WENT ON TO SAY THAT, AS IT TURNED OUT, DND DOES HAVE ADEQUATE PROGRAMMING PERSONNEL ON BOARD NOW AND THEREFORE COULD HAVE UTILIZED THE CANADIAN DOLS 60 MILLION WHICH HAS TEMPORARILY BEEN FOREGONE. NEVERTHELESS, WITHERS IS CONTENT WITH THIS TURN OF EVENTS BECAUSE HE HAS SET PLANNING STAFF TO WORK DEVELOPING SERIES OF PROGRAMS THAT CAN BE "PUT ON THE SHELF" UNTIL THEY ARE NEEDED. HE ANTICIPATES SOME DELAYS IN BRINGING "BIG TICKET" ITEMS ON STREAM, AND IT WILL BE USEFUL TO HAVE AVAILABLE SOME OF THESE SMALLER PROGRAMS AS FILL-INS IN ORDER TO UTILIZE BUDGETED FUNDS. IN THIS CATEGORY HE MENTIONED SONOBUOYS AND AMMUNITION, BY WAY OF ILLUSTRATION.

5. WITHERS CAUTIONED THAT DND DEAL WITH TREASURY BOARD IS VERY CONFIDENTIAL, AND NOT SOMETHING THAT DND WISHES TO CONFIDENTIAL

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PAGE 03 OTTAWA 02200 272353Z

DISCUSS, PARTICULARLY WITH MP'S OR JOURNALISTS. HE EXPRESSED ANNOYANCE THAT PC MEMBER (MAC KINNON) HAS RAISED QUESTION OF SHORTFALLS IN THE HOUSE, SINCE MAC KINNON HAD BEEN QUIETLY BRIEFED ON THE ARRANGEMENT IN ADVANCE. N.B. WITHERS' CONFIDENCE SHOULD BE PROTECTED.

6. COMMENT: WE FIND WITHERS' EXPLANATION OF CURRENT SHORTFALLS QUITE PLAUSIBLE AND WE HAVE NO REASON TO DOUBT HIS SINCERITY. ON THE OTHER HAND, DEFERRAL ARRANGED BETWEEN DND AND TREASURY BOARD WILL STILL BE SUBJECT TO PARLIAMENTARY PROCEDURES, AND IT THEREFORE REMAINS TO BE SEEN WHETHER PARLIAMENT WILL INDEED PROVIDE ADDITIONAL FUNDS IN FUTURE TO COMPENSATE FOR FUNDING FOREGONE THIS YEAR. MOREOVER, IT APPEARS TO US THAT WHILE WITHERS' SCENARIO MAY WELL RAISE CAPITAL SPENDING TO THE TARGET LEVEL BY FY 80-81, TOTAL BUDGET SPENDING WOULD FALL FAR SHORT OF NATO THREE PERCENT GOAL. ENDERS

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